


<b>Date:</b> April 25, 2011  <b>To:</b> Miriam Morales-Taylor, Assistant Superintendent, Learning Support Services  <b>From:</b> H. Patrick Campbell, Chief Auditor  <b>Tele:</b> 860.757.9951 <i>HPC</i>		<b>Hartford Public School System  Learning Support Services Department  Student Tuition Expense and Revenue Audit  Report 1113</b>
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## I. Executive Summary

In accordance with our audit plan for the fiscal year ending June 30, 2011, we completed an audit in March 2011 of the Hartford Public School System Learning Support Services Department Student Tuition Expenses and Revenue. The purpose of the audit was to evaluate and test internal accounting and operating controls, the accuracy and propriety of transactions processed, the degree of compliance with established operating policy and procedures, and to recommend improvements where required.

The results of our examination were reviewed with M. Morales-Taylor, Assistant Superintendent, Learning and Student Support Services Department; E. Genao, Director, Regional School Choice Office; J. Sanchez, Director, Financial Management Department and, other responsible members of operating management. The summary that follows includes only exceptions disclosed and recommended operating improvements. For each reported item, management agreed to implement our recommendations or take other appropriate corrective action unless specifically indicated otherwise. Included are management's actions taken or planned including timeframes to resolve each finding and/or recommendation in this report. We thank Learning and Student Support Services management and staff for their cooperation and courtesies extended to us during our audit.

### Background

The State of Connecticut Department of Education mandates that each municipality has the legal responsibility to identify and educate all children whose parents or guardians are residents of their respective cities and towns. This includes either educating these children within their own school district or sending students with special educational or other requirements out of district to attend programs or receive services that are not available within the district. The school districts that send students out of district are required to pay tuition to the districts or facilities that are providing these special education programs and services. Each district or facility independently establishes the fees or tuition they charge other districts. The State of Connecticut Department of Education allows each municipality to request reimbursement for a portion of the costs associated with providing services to these and other students with special needs through the "Excess Cost Reimbursement" process. During the fiscal year ended June 30, 2010 the Hartford Public School System (HPSS) paid more than \$32 million in tuition to send approximately 830 students to other districts and facilities to receive services or attend special education programs and billed more than \$790,000 in fees for about

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130 students who were sent to HPSS from other districts to receive services or attend special education programs. For this same period, HPSS requested more than \$9.2 million from the State of Connecticut Department of Education for Excess Cost Reimbursements.

Scope

The scope of our audit included various tests of transactions recorded during the fiscal year ended June 30, 2010 and reviews of related operations. The following audit procedures were performed:

- Reviews and evaluations of policies, procedures and related internal operating and accounting controls,
- Tests of cash receipts, deposits and related accounting, recording and balancing processes,
- Tests of tuition billed to and collected from other districts for students receiving services from the HPSS,
- Tests of the payment of tuition to other districts and facilities providing services to HPSS students.

The scope of our audit and related testing was limited as noted in the following details because we were not provided access to required student information. During the course of our review, we were informed by the Corporation Counsel's Office that providing the Internal Audit Department with student information would violate the terms and conditions of the Family Educational Rights and Privacy Act (FERPA), Americans with Disabilities Act and Individuals with Disabilities in Education Act. It should be noted that this was never raised as an issue during prior audits of these operations.

General

In general, we found that although policies, procedures and controls for certain key functions and processes were documented, they needed some improvement. This included the process for reviewing and approving the propriety of tuition billed to HPSS from other districts and facilities prior to payment. We estimated that HPSS overpaid other districts and institutions more than \$40,000 in tuition expenses due to paying for the same services twice, paying for the cost of services for students from other districts and paying for services when students were absent. We also noted that policies and procedures were not documented and needed improvement for certain key functions, including the process for calculating and remitting Excess Cost Reimbursement requests and processing tuition payments received from other school districts. We estimated that HPSS did not recover more than \$134,000 in eligible student related expenses because they were not included in the Excess Cost Reimbursement request submitted to the State of Connecticut. In addition, policies and procedures relating to the billing and collection of attendance fees charged to out-of-district students were not completely documented and needed improvement. This included the need for improved controls to ensure that cash receipts are deposited and accounted for properly.

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## **II. Audit Results**

### Tuition Expense Review and Approval Process

Various tests of 1,054 tuition payments totaling more than \$8.5 million made by HPSS to other districts and facilities during the fiscal year ended June 30, 2010 and reviews of related operations disclosed the following.

1. The procedures for the review and approval of tuition invoices do not include details regarding what actions are taken by the Learning and Student Support Services Special Education Unit to determine the propriety of the amounts billed before approving the invoices for payment. We recommend that Learning and Student Support Services (LSS) management update procedures to include the detail steps taken to determine the propriety of the amounts billed on tuition invoices prior to approving them for payment.
2. Controls needed improvement to detect and/or prevent duplicate tuition payments to other educational institutions. In addition, policies and procedures relating to accounting for and recording credits needed improvement. We found that one special education provider billed HPSS twice for services totaling more than \$8,000 provided to one student during May and June of 2009. HPSS paid these duplicate charges in January and February of 2010 and did not detect this overpayment until October 2010. While this is one instance for a relatively small dollar amount compared to the more than \$32 million in tuition paid during this period, there may be other overpayments that were not identified. To settle the overpayment the out-of-district educational institution agreed to provide HPSS with three separate credits. Further reviews of these credits disclosed that documentation was not adequate to support that HPSS actually received \$2,080 associated with two of the credits. In addition, as of February 2011 HPSS had not received \$5,950 associated with the third credit. As a result of our audit, HPSS management took immediate action and recovered the \$5,950. We recommend that HPSS management take action to obtain the documentation necessary to support that they received the \$2,080 associated with the other two credits. In addition, we recommend that LLS and FMD management work together to strengthen procedures and controls to detect and/or prevent duplicate tuition payments in the future and improve policies and procedures relating to accounting for and recording credits.
3. HPSS paid tuition expenses totaling \$32,300 for 15 out-of-district students. The tuition for these out-of-district students resulted from services they received from the Hartford Juvenile Detention Center. These amounts were originally billed to but rejected by the towns that are financially responsible for the education of these students. Although we were informed by HPSS personnel that HPSS is somehow responsible for the payment of these expenses associated with out-of-district students, they were unable to provide us with any State or other statutes to support that HPSS is required to pay the \$32,300. We recommend that LSS management take action to review these expenses to confirm that they were required to be paid by HPSS. This should include obtaining and documenting any related applicable State statutes or other documentation to support that HPSS is obligated to pay the \$32,300. If it is deemed that HPSS was not obligated to pay these expenses, we recommend that LSS management take action to recover the \$32,300. We also recommend that LSS management strengthen procedures and controls to ensure that HPSS does not pay tuition expenses for out-of-district students in the future.
4. The verification of the residency of a student's parents or guardians is an important tool in assuring that only eligible students are enrolled in the City's school system and related programs and HPSS does not unnecessarily pay tuition costs. Due to the generally significantly higher

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costs associated with students sent out-of-district, it is all the more critical that parent or guardian residency requirements are met for this population of students. We noted that policies, procedures and controls relating to verifying parent or guardian residency requirements were not documented and needed improvement. We were unable to locate the residency verification forms for any of the 30 special education students we tested for this attribute. HPSS paid more than \$2.4 million in tuition expenses on behalf of these 30 students during the fiscal year ended June 30, 2010. In addition, it was not clearly documented which students were reviewed to verify the residency requirements of their respective parents or guardians. After we brought this to the attention to HPSS management they were able to validate that parents met the residency requirements for 18 of these 30 students with tuition costs totaling \$1.6 million. HPSS management indicated that they would follow-up on and verify that the parents or guardians for the remaining 12 students with tuition costs totaling \$800,000 also meet the residency requirements. We recommend that HPSS management develop and document policies and procedures relating to the process for verifying the propriety of the residency of the parents or guardians of students. This should include identifying and concentrating residency verification efforts on higher cost out-of-district students. In addition, we recommend that HPSS management develop and maintain a summary listing including the results of the residency verifications that are performed.

5. We reconciled the number of days charged to HPSS for services provided to students attending out-of-district programs to independently reported attendance records submitted by the respective districts and institutions. For one September 2009 invoice totaling more than \$404,000 for 50 students, we found that the number of days charged to HPSS for services reportedly provided to 37 students exceeded the corresponding independently reported days of attendance for these students by 146 days. Based on this institution's daily tuition rates HPSS paid the vendor more than \$40,000 for the days these students were absent and did not receive any services. Additional tests of the attendance records and amounts invoiced for seven students from October to December 2009 disclosed that HPSS paid the vendor \$26,500 for 94 days these students were absent and did not receive any services. These absences extended for periods up to 20 days for a month with 21 school days. We were informed that due to the current contract terms and conditions regarding attendance, absenteeism and the billing and payment for related services HPSS would not be able to recover the \$66,500 noted above. We recommend that HPSS management take the steps necessary to ensure that out-of-district educational institutions are not paid for days when students are absent and do not receive billable services where applicable. In addition, we recommend that HPSS management ensure that the terms and conditions regarding attendance, absenteeism and the billing and payment for related services are clearly documented in contracts for out-of-district providers.

**Management Action Plan**

Completion Date: June 30, 2011

Responsible Person: M. Morales-Taylor, Assistant Superintendent, Learning Support Services Department

We will review and update procedures to include the detail steps taken to determine the propriety of the amounts billed on tuition invoices prior to approving them for payment. After further review we have determined that we will be unable to recover the \$2,080 associated with the two credits noted above, because they relate to a prior school year, however, we will take the steps necessary to strengthen procedures and controls to detect and/or prevent duplicate tuition payments in the future and improve policies and procedures relating to accounting for and recording

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credits. In addition, we will review the \$32,300 in expenses paid on behalf of the out-of-district students to confirm that they were required to be paid by HPSS. This will include obtaining and documenting any related applicable State statutes or other documentation to support that HPSS is obligated to pay the \$32,300. If it is deemed that HPSS was not obligated to pay these expenses, we will take action to recover the \$32,300. Related procedures and controls will also be strengthened to ensure that HPSS does not pay tuition expenses for out-of-district students in the future. We will also develop and document policies and procedures relating to the process for verifying the propriety of the residency of the parents or guardians of students. This will include identifying and concentrating residency verification efforts on higher cost out-of-district students. In addition, we will develop and maintain a summary listing including the results of the residency verifications that are performed. Regarding absences, HPSS entered into implied or by the actions of the parties contract with this vendor, CCMC, to provide services for a predetermined number of students. Hence the billing is based on the number of slots allocated to HPSS and NOT on students' attendance. Therefore, we cannot apply for a reimbursement due to students' absenteeism. CCMC does issue credits for students exiting their program for other justifiable reasons. We will enter into a written contract with specific language to address students' absence for more than three consecutive days.

Excess Cost Reimbursement

The State of Connecticut Department of Education will reimburse cities and towns a percentage of the costs associated with students who are placed in private residential facilities by a State agency. Various tests of the Excess Cost Reimbursement process and calculations for the school year ended June 2010 and reviews of related operations disclosed the following:

1. Policies, procedures and controls regarding the Excess Cost Reimbursement process were not documented and needed improvement. As noted in the details that follow, certain eligible tuition expenses were not included in the Excess Cost Reimbursement request submitted to the State by HPSS for the school year ended June 30, 2010. We recommend that LSS management take action to develop and document policies, procedures and controls relating to the Excess Cost Reimbursement process.
2. According to the terms and conditions of the Data Application and Collection Grants handbook, the Excess Cost Reimbursement applies to both regular and special education students. We found, however, that for the fiscal year ended June 30, 2010, the Excess Cost Grants Report did not include applicable costs relating to five regular education students in the request for reimbursement from the State. As a result, we estimated that more than \$90,400 in expenses for these five students had not been included in the request for reimbursement from the State for this fiscal year. HPSS management informed us that Excess Cost Reimbursements cannot be amended after submission to SDE on or before March 1 of the school year. As a result HPSS will not be able to recover the \$90,400 noted above. We recommend that HPSS management take the steps necessary to ensure that all applicable students and related costs are included in the Excess Cost Reimbursement requests in the future.
3. The Excess Cost Reimbursement request submitted to the State by HPSS for the period we tested did not include tuition expenses totaling \$44,380 for eight Hartford students placed by State agencies. This included four students placed in the juvenile detention center. HPSS did not include these tuition expenses in the Excess Cost Reimbursement request because separately they did not exceed the excess dollar

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threshold. In aggregate, however, the combined tuition costs for these eight students exceeded the excess dollar threshold by \$44,380. As a result the Excess Cost Reimbursement request was understated by \$44,380. As previously noted HPSS management informed us that the Excess Cost Reimbursement cannot be amended after submission to SDE on or before March 1 of the school year. As a result, HPSS will not be able to recover the \$44,380 noted above. We recommend that LSS management improve procedures and controls to ensure that all applicable excess costs are included in reimbursement requests in the future.

4. The Special Education Department tracks student attendance, tuition, transportation and other information in an Excel spreadsheet. This information is subsequently used by HPSS to report to and request Excess Cost Reimbursements from the State. We found that the balances in the Excel spreadsheet for the school year ended June 30, 2010 did not match the related student costs reported to the State in the Special Education Data Application and Collection (SEDAC) report for the same period. We found that there was a \$130,250 variance between the Excel spreadsheet and the corresponding amount report in the SEDAC report to the State. It was not readily apparent why the balances in these reports were different nor was a reconciliation performed to identify and determine the reason for this variance. This could result in inaccurate reporting to the State and/or a potential loss of revenue from the Excess Cost Reimbursement process. We recommend that HPSS management take action to investigate and identify the reason for the variance in the balance between the Excel spreadsheet and the SEDAC report used as the basis for reporting student attendance, educational cost and other information to the State. We also recommend that HPSS management establish a procedure for reconciling the balances on these reports in the future to ensure that student information provided to the State is accurate and consistent. This is especially important for Excess Cost Reimbursement purposes.

**Management Action Plan**

Completion Date: June 30, 2011

Responsible Person: M. Morales-Taylor, Assistant Superintendent, Learning Support Services Department

We will take action to develop and document policies, procedures and controls relating to the Excess Cost Reimbursement process. This will include developing and implementing procedures to account for all students out placed at Hartford Juvenile Detention Center and residential facilities specifically those placed in multiple facilities through the school year. We will also investigate and identify the reasons for the variances in the balances on the reports which are ultimately used to provide student attendance, educational cost and other information to the State and ensure that student information provided to the State on various reports is accurate and consistent. This will include establishing procedures for reconciling and following up on any variances on these reports in the future.

Attendance Fee Revenue Billing and Collection

Various tests of the \$1,432,094 in fees billed to other districts for students attending HPSS during the two fiscal years ended June 30, 2010 and reviews of related operations disclosed the following.

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1. Although policies and procedures relating to billing other districts for students attending HPSS were documented they needed some improvement. The procedures did not include copies of standard forms and documents including rate notification forms, examples of invoices and the spreadsheets used to track amounts billed and collected. In addition, although the procedures included generic collection actions to be taken, they did not include details on how to address and resolve amounts that are billed but ultimately not paid.
2. During the two fiscal years ended June 30, 2010 ten school districts did not pay HPSS \$32,091 of the amounts billed to them during this period. According to Regional School Choice Office (RSCO) management, there are a number of reasons why these amounts were not collected and/or paid. We noted, however, that the reasons for not collecting these amounts were not documented and there is no related review and approval of these fee waivers by management.
3. Because we were not provided access to student information, we were unable to perform tests to determine the propriety of amounts billed to other districts for students attending City of Hartford schools.

We recommend that RSCO management improve policies and procedures relating to billing other districts for students attending HPSS and collecting related amounts that have not been paid. This should include adding copies of standard forms and spreadsheets used in the billing and collection process for reference purposes. In addition, this should include procedures for the management approval of and requirements for documenting reasons for not collecting amounts that have not been paid. Finally, we recommend that RSCO management take action to determine if any of the \$32,091 noted above should be collected. If it is determined that these amounts should not be collected, the related reasons should be documented and approved by the appropriate level of management.

**Management Action Plan**

Completion Date: May 31, 2011

Responsible Person: E. Genao, Executive Director, Regional School Choice Office, Hartford Public School System

We will make improvements as noted above to policies and procedures relating to billing other districts for students attending HPSS and collecting related amounts that have not been paid. This will include adding copies of standard forms and spreadsheets used in the billing and collection process to the procedures for reference purposes. In addition, this will include procedures for the management approval of and requirements for documenting reasons for not collecting amounts that have not been paid. We will also take action to determine if any of the \$32,091 should have been collected and document reasons and management approval for not collecting any amounts due and unpaid.

Cash Receipt Processing

RSCO receives and processes checks from other districts for students that receive services from and/or attend school in the HPSS. During the fiscal year ended June 30, 2010 RSCO received and processed checks totaling more than \$776,000. Various tests of the process used to account for and record these cash receipts and reviews of related operations disclosed the following.



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1. Policies, procedures and controls relating to the cash receipt process were not documented and needed improvement. This included, but was not limited to, accounting for checks received, recording cash receipts in the MUNIS Financial Management System (MUNIS) and depositing checks in HPSS's designated bank account.
2. Checks are not restrictively endorsed immediately upon receipt.
3. The individual responsible for billing student attendance fees and collecting and recording amounts paid has access to the checks received from other districts. This creates an inadequate level of segregation of duties over the billing, collection and cash receipt processes. Someone independent of the billing and collection process should be assigned responsibility for receiving the checks, recording them in a log, entering the receipts in MUNIS and submitting them to the Financial Management Department for deposit.
4. An independent review is not being performed to ensure that checks received from other districts for attendance fee payments are accounted for in the RSCO billing and collection summary, recorded in MUNIS and deposited in the HPSS's designated bank account.

We recommend that RSCO management develop, document and implement policies and procedures to ensure that the control issues noted above are addressed. RSCO management informed us that they will instruct other districts to send attendance fee payment checks directly to the Financial Management Department in the Central Office for deposit and recording in MUNIS. This should address most of the control issues noted above, however, an independent review still needs to be performed by RSCO to ensure that checks received from other districts for attendance fee payments are accounted for in the RSCO billing and collection summary, recorded in MUNIS and deposited in the HPSS's designated bank account.

**Management Action Plan**

Completion Date: May 31, 2011

Responsible Person: E. Genao, Executive Director, Regional School Choice Office, Hartford Public School System

We will instruct other districts to send attendance fee payment checks directly to the Financial Management Department in the Central Office for deposit and recording in MUNIS. We will also develop and implement procedures for performing independent reviews to ensure that checks received from other districts for attendance fee payments are accounted for in the RSCO billing and collection summary, recorded in MUNIS and deposited in the HPSS's designated bank account.

PowerSchool Student Information System

The PowerSchool Student Information System (PSIS) is a comprehensive software application that is used by HPSS to manage, analyze and report student related data at both the school and district level. PSIS is used to maintain and account for student information including, but not limited to, demographics, grades, attendance, health, scheduling, course history and emergency data. In addition, PSIS can be used to create and



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customize reports including those mandated by the State. At the time of our review, there were 923 HPSS employees with active PSIS user identification numbers (IDS). Various tests of PSIS security and access controls and reviews of related operations disclosed that policies and procedures for the administration of security and access to PSIS were not documented. This should include, but not be limited to, documenting the processes for adding new users, changing user access capabilities based on corresponding changes in job responsibilities or deactivating users when they no longer need access to PSIS. We recommend that Metro Hartford Information Services management take action to document policies and procedures for the administration of security and access to PSIS.

**Management Action Plan**

Completion Date: May 31, 2011

Responsible Person: S. Shipman, Acting Chief Information Officer, Metro Hartford Information Services


We will document policies and procedures for the administration of security and access to PSIS.

**Distribution:**

Internal Audit Commission Members  
Board of Education Members  
City Council Members  
S. Adamowski, Superintendent, Hartford Public School System  
P. Altieri, Chief Financial Officer, Hartford Public School System  
E. Genao, Director, Regional School Choice Office  
J. Kupiec, Chief of Staff, Mayor's Office  
J. Molleda, Acting Director, Management and Budget Department  
D. Panagore, Chief Operating Officer, Mayor's Office  
S. Shipman, Acting Chief Information Officer, Metro Hartford Information Services  
P. Segarra, Mayor

**Audit Team:**

P. Campbell  
D. Sinclair

<b>Date:</b> April 15, 2011  <b>To:</b> Matthew Poland, Chief Executive Officer, Hartford Public Library <b>From:</b> H. Patrick Campbell, Chief Auditor <b>Tele:</b> 860.757.9951 <i>HPC</i>		<p style="text-align: center;"><b>City of Hartford Hartford Public Library Payroll Accounts and Operations Audit Report 1115</b></p>
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## I. EXECUTIVE SUMMARY

In accordance with our audit plan for the fiscal year ending July 30, 2011, we completed an audit in March 2011 of the City of Hartford Hartford Public Library Payroll Accounts and Operations. The purpose of the examination was to evaluate and test internal accounting and operating controls, the accuracy and propriety of transactions processed, the degree of compliance with established operating policy and procedures, and to recommend improvements where required. The results of our examination were reviewed with M. Poland, Chief Executive Officer; J. Molleda, Chief Financial Officer, Business Office; and, other responsible members of operating management. The summary which follows includes only exceptions disclosed and recommended operating improvements. Management has also noted actions taken or planned including timeframes to resolve each finding and/or recommendation in this report. We thank Hartford Public Library management and staff for their cooperation and courtesies extended to us during our audit.

### Background

The Business Office is responsible for processing payrolls for the Hartford Public Library (the Library). This includes the administration of a bi-weekly payroll for approximately 140 full-time, part-time and temporary employees. A majority of payroll related work and tasks are performed by the Business Manager. Data entry for payroll transactions are centralized with each central office department and branch library submitting timesheets to the Business Office for data entry in the MUNIS Financial Management System Payroll Module. At the end of each payroll cycle, direct deposits are made and checks are generated and issued. During the calendar year ended December 31, 2010, the Library payroll expense totaled approximately \$4.8 million.

### General

We found the Library payroll accounts, operations and transactions to be generally satisfactory. As noted in the details that follow, however, we did note that certain payroll related policies, procedures and controls were not documented and/or needed improvement.

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Scope

The scope of our review included examinations of payroll accounts, operations and transactions for the calendar year ended December 31, 2010. The following detailed audit procedures and tests were performed:

- Reviews and evaluations of policies, procedures and controls;
- Tests of regular and overtime pay;
- Tests and reviews of other pay categories;
- Tests and reviews of payroll related employee reimbursements; and
- Tests and reviews of security and access to the MUNIS Financial Management System.

**II. Detail Findings**

Various tests, noted in the scope section above, and reviews of related operations disclosed the following:

Policies and Procedures

Policies and procedures for a number of key payroll operations, functions and activities were not documented or needed improvement.

1. Employees are reimbursed for eligible expenses through the Payroll system. Reimbursable expenses include travel and training costs, petty cash type expenditures and other items. During our test period, the Library reimbursed employees for 115 items totaling more than \$15,200. Tests of employee reimbursements for five items totaling \$3,413 and reviews of related operations disclosed the following.
  - a. Policies, procedures and controls relating to the employee reimbursement process were not documented.
  - b. The types of expenses and dollar amounts that are eligible to be processed through the payroll reimbursement process were not documented.
  - c. Although it appears there are documentation, review and approval requirements for employee reimbursements, they were not documented.

We recommend that Library management develop and document policies, procedures and controls relating to the employee reimbursement process. This should include noting the types of expenses and dollar amounts that are eligible, expense documentation standards and review and approval requirements.

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2. Employees terminating employment with the Library are eligible to receive severance payments. There were five severance payments totaling more than \$8,900 paid to four employees during our test period. Tests of these severance payments and reviews of related operations disclosed the following.
  - a. Policies, procedures and controls relating to employee severance payments were not documented.
  - b. It was not clear or readily apparent which, and under what conditions, employees are eligible to receive severance payments.
  - c. There were no details regarding the basis for establishing the dollar amounts for severance payments including dollar thresholds.
  - d. There were no standard documentation or review and approval requirements for severance payments.

We recommend that Library management develop and document policies, procedures and controls relating to the employee severance payment process. This should include the conditions under which employees are eligible to receive severance payments, details regarding the basis for establishing the dollar amounts for severance payments and related standard documentation and review and approval requirements.

3. In certain instances, Library management is required to provide an employee a payroll check outside of the normal bi-weekly payroll cycle. We noted that policies, procedures and controls relating to these "Special Checks" were not documented. We recommend that Library management develop and document policies, procedures and controls relating to requesting and obtaining employee payroll special checks.
4. The policy relating to overtime is outdated and, as a result, inaccurate. We noted that the policy refers to incorrect work hours and how overtime is earned and accrued. We recommend that Library review all Payroll policies including, but not limited to, overtime and make sure that they are up to date and accurate.

**Management Action Plan**

Due Date: July 1, 2011

Responsible Person: Matthew Poland, Chief Executive Officer, Hartford Public Library

While there is no question about the legitimacy of employee reimbursements and even though we currently use a form to document employee reimbursements based on City policy, we will develop a set of procedures that is worded similarly to the City of Hartford's financial management policies and procedures. Regarding severance payments, the union contract states that a 30 day notice is required before a layoff. Generally, the 30 days are paid in lieu of notice. The City office of labor relations is currently printing the recently negotiated union contract which will include a provision for a severance payment in lieu of a 30 day notice before a layoff. Other than the notice provision, the Library does not have a severance policy, but we do reserve the right to pay 30 days in lieu of notice and will document procedures relating to the current payment in lieu of notice process. Regarding special checks, while HPL currently complies with the City of Hartford's policy to generate special checks, we will review the procedures with the City Payroll Department as a refresher. The Library pays full and part-time employees straight time at their

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respective hourly rates up to 40 hours per week. For hours worked in excess of 40 per week, the Library pays 1.5 times the hourly rate, per State and Federal law. The new contract reflects a 37.5 hour work week for full time employees. The policy manual for non-union employees will be adjusted to reflect the correct work week.

Payroll Management and Audit Reports

Although the payroll process is centralized it is still possible for the payroll specialist responsible for entering timesheet data to unintentionally make errors or omissions or intentionally record an inappropriate transaction that could benefit them or other employees which could go undetected. Payroll Management and Audit Reports can be used to help identify any unusual or questionable transactions for review and follow-up by management. The Business Office currently has a procedure for creating and reviewing a Payroll Management report generated from the bi-weekly payroll. We believe that the procedures related to this process could be improved and additional Payroll Management and Audit Reports could be beneficial.

1. The procedures for the current bi-weekly Payroll Management report used by the Business Office could be improved by detailing the types of unusual entries that should be identified and followed-up on and how the related review and approval process is documented.
2. The following Payroll Management and Audit reports should also be considered.
  - a. Payments made by pay code. This could help to identify errors and inappropriate activity in the various pay codes.
  - b. Activity recorded in Payroll Specialist accounts. This could help to mitigate potential exposures relating to the lack of segregation of duties, noted later in this report, resulting from these individuals recording their own transactions.
  - c. Credits in pay accounts, such as deduction codes, that should normally be debits. This could be indicative of an overpayment.
  - d. A report of checks produced outside of the normal payroll cycles.
  - e. A report of amounts paid in excess of an established dollar threshold.
3. During a previous audit we were informed that the City of Hartford Finance Department Payroll Unit had developed and was using a number of Payroll Management and Audit Reports.

We recommend that Library management take action to improve the procedures for the current Payroll Management report review process noted above. In addition, we recommend that Library management develop and implement Payroll Management and Audit Reports for the areas noted above and work with the City of Hartford Finance Department Payroll Unit to identify and implement any additional reports that may be beneficial.

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**Management Action Plan**

Due Date: July 1, 2011

Responsible Person: Matthew Poland, Chief Executive Officer, Hartford Public Library

Although there is no indication that the Library's business office has failed to review payroll processing reports, we will update related procedures, as deemed necessary, to reflect the types of unusual entries that should be identified and researched and how the related review and approval process is documented. We will also consider additional reports available through MUNIS to further insure the security and accuracy of our payroll process.

Other Payroll and Processing Issues

Various other tests and reviews disclosed the following:

1. Due to timesheet and data input errors, one employee was overpaid \$44. Payroll Management and Audit reports could have helped prevent and/or detect at least one of the errors made. We recommend that Library management take action to recover the \$44 noted above from the employee and take the steps necessary, including developing and implementing Payroll Management and Audit reports, to prevent/detect errors of this type in the future.
2. Four employees were receiving a separate amount under the pay code "Additional 5%" above and beyond the top of the ranges for their respect job classes. These were due to special arrangements with these employees for working out of class or having been promised a salary level that was in excess of the applicable pay range for the position. This is not the most effective and/or proper method for paying employees and could result in other procedural and control issues. We recommend that Library management take the steps necessary to establish job classes and pay ranges that will accommodate the salary requirements of these employees and eliminate the need for the "Additional 5%" stipend.

**Management Action Plan**

Due Date: July 1, 2011

Responsible Person: Matthew Poland, Chief Executive Officer, Hartford Public Library

MUNIS lacks a robust time and attendance application, therefore, payroll transactions often require multiple manual transactions that increase the likelihood of human error. The Library had *one* such transaction that resulted in an overpayment of \$44. Due to the small amount and the passage of time since the error occurred, we will not attempt to recoup the over-payment, but will make every effort to ensure that such an error

**City of Hartford  
Hartford Public Library  
Payroll Accounts and Operations Audit**

does not happen again. We encourage the City to develop the time and attendance module within MUNIS thus improving the accuracy of payroll transactions considerably. Although we will review the classifications of employees currently receiving the 5% stipend for performing work outside of their classifications we will maintain the long-standing policy and collective bargaining provision that requires a 5% stipend when employees perform work outside of their classifications on a temporary basis.

**MUNIS Payroll Module Security and Access**

Because the Library payroll process is centralized in the Central Library Business Office, only three employees are required to have access to the MUNIS Payroll module for data entry and other activities. Various tests of employee security and access to the MUNIS Payroll Module and reviews of related operations disclosed the following.

1. Library management is not required to approve data input by the timekeeper in MUNIS before it is processed and paid. As a result, this increases the possibility that errors and inappropriate entries could be made without being detected and prevented before employees are paid.
2. Policies, procedures and controls relating to the administration of Library employee security and access to the MUNIS system were not documented. As previously noted, only three Library employees currently have active data entry and other access to the MUNIS Payroll module.
3. The Library Payroll Specialist enters her own timekeeping transactions in the MUNIS Payroll module. This creates a potential control issue relating to the segregation of duties.

We will refer the issue of establishing the workflow in MUNIS that will require management to approve payroll data input by timekeepers before it is processed and paid to City of Hartford Finance Department management for review and resolution. We recommend that Library management take action to develop and document policies, procedures and controls relating to the administration of Library employee security and access to the MUNIS Financial Management System and related modules. The potential segregation of duties control issue relating to the Library Payroll Specialist entering their own timekeeping transactions can be addressed by the previously noted Payroll Management and Audit Reports and management's review and approval of payroll data input by timekeepers before it is processed and paid in MUNIS.

**Management Action Plan**

Due Date: July 1, 2011

Responsible Person: Matthew Poland, Chief Executive Officer, Hartford Public Library

We will take action to develop and document policies, procedures and controls relating to the administration of Library employee security and access to the MUNIS Financial Management System and related modules. We will also ensure that the potential segregation of duties control



**City of Hartford  
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issue relating to the Library Payroll Specialist entering their own timekeeping transactions is addressed by utilizing Payroll Management and Audit Reports and management's review and approval of payroll data input by timekeepers before it is processed and paid in MUNIS.

**Distribution:**

Internal Audit Commission Members  
City Council Members  
J. Kupiec, Chief of Staff  
J. Molleda, Acting Director, Management and Budget Department  
D. Panagore, Chief Operating Officer  
P. Segarra, Mayor

**Audit Team:**

P. Campbell  
J. Garvis

<b>Date:</b> April 25, 2011 <b>To:</b> Donna Parker, Pension Plan Administrator, City Treasurers Office <b>From:</b> Craig S. Trujillo, Deputy Chief Auditor <b>Tele:</b> 860.757.9952 CST		<b>City of Hartford</b> <b>Mortality Audit Report 1116</b>
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#### Background

The City of Hartford (the City) and Hartford Public School System (HPSS) Payroll units are responsible for administering payrolls, and making sure that the information recorded in the MUNIS financial management system (MUNIS) is accurate. The Pension Administration Unit (PAU) of the City Treasurer's Office is responsible for the administration of the City and HPSS Retiree pension payments. This includes ensuring that pension benefit payments made to retirees and surviving spouses are discontinued promptly after they are declared deceased. Any payments made after the date of death are followed-up for recovery and properly recorded, only after they identify or are made aware that a pension recipient has passed away by their family, the City or HPSS Payroll Units or other sources. To perform our review, we had payroll data for pensioners and active employees downloaded from MUNIS. We submitted the data to The Berwyn Group, an independent consultant, who compared the 13,906 records to their master files containing mortality records obtained from federal and state government and various private organizations. The review included all retirees and surviving spouses currently receiving pension benefits and all active employees in the MUNIS system.

#### Results of the Review

After reviewing the Berwyn Group report and investigating the possibility of overpaying individuals that are indicated as deceased per the Berwyn Group National Master Death File, we found that retirement benefits were overpaid by \$14,322 relating to five deceased retirees. Apparently, the PAU was never notified by outside parties that these retirees had passed away. We reviewed the overpayments with Pension Administration management and immediate steps were taken to recover the \$14,322. Management informed us that they expect to fully recover the overpayments. We also found that six retirees were reported by the Berwyn Group as being deceased; however, they were active and still eligible to receive medical benefits according to the Anthem Blue Cross system. There is a risk that medical benefits could be erroneously paid on these eligible accounts. Apparently, Human Resource management was never notified by outside parties that these individuals had passed away. We referred this matter to Human Resource management to have the medical benefit eligible status of these individuals immediately cancelled in the Anthem Blue Cross system.

**City of Hartford  
Mortality Audit**

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P. Altieri, Chief Financial Officer, Hartford Public School System

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A. Cloud, City Treasurer

C. Johnson, Acting Director, Finance Department

J. Kupiec, Chief of Staff, Mayor's Office

S. Malave, Director Human Resource Department

J. Molleda, Acting Director, Management and Budget Department

D. Panagore, Chief Operating Officer, Mayors Office

P. Segarra, Mayor

Audit Team:

J. Caruso

C. Trujillo

**Date:** June 24, 2011

**To:** S. Malave, Director, Human  
Resources Department

**From:** C. Trujillo, Deputy Chief Auditor

**Tele:** 860-757-9952

*CST*



**City of Hartford  
Self Insured Workers' Compensation  
Outstanding Claim Loss Reserve Audit  
Report 1117**

## **I. EXECUTIVE SUMMARY**

In accordance with our audit plan for the fiscal year ending June 30, 2010, we completed an examination in June 2011 of the City of Hartford Self Insured Workers' Compensation Outstanding Claim Loss Reserves as of April 30, 2011. The purpose of the examination was to determine that open workers compensation claim reserves were being reviewed and updated timely; subrogation and Connecticut Second Injury Fund recoveries were pursued; where applicable, and, final claim settlement opportunities identified and documented. The results of the examination were referred to the Claim Account Executive of the Travelers Insurance Group; and, a responsible member of Human Resources Department management. The summary which follows includes only our claim review observations. We did not perform tests to determine the propriety of claim payments. We will perform an audit of claim payments separately.

### Background

Workers' Compensation insurance covers medical and rehabilitation costs, death benefits and lost wages for employees injured at work. The City Human Resources department is responsible for administering the City's workers' compensation program. The City has in turn contracted with the Travelers Insurance Group (The Travelers) to administer employee workers' compensation claims. The City may be reimbursed for claims through the Connecticut State Second Injury Fund (SIF) or through subrogation proceedings. The SIF was established in 1945 to discourage discrimination against veterans and encourage the assimilation of workers with a pre-existing injury into the workforce. Prior to July 1, 1995, the SIF provided relief to employers when a worker who already had a pre-existing injury or condition was hurt on the job and that second injury was made "materially and substantially" worse than it would have been if not for the first injury. Employers transferred liability for these workers' compensation claims to the Fund after 104 weeks, if certain criteria were met under the Connecticut Workers' Compensation Act. Subrogation in its most common usage refers to circumstances in which an insurance company tries to recoup expenses for a claim it paid out when another party should have been responsible for paying at least a portion of that claim. As of April 30, 2011 there were 593 open claims, dating back to 1959, with related reserves totaling \$14.8 million.

### General

In general, we found that open workers' compensation claims were being properly administered by the Travelers, however, we did note the an amount due from the Connecticut Workers' Compensation Second Injury Fund totaling \$81,736 needed to be followed-up for collection. No other matters were noted that require management attention.

**City of Hartford**  
**Self Insured Workers' Compensation**  
**Outstanding Claim Loss Reserve Audit**

Scope

Reviewed City, including Police and Fire, and Hartford Public School System claim data in the Travelers e-Carma web based workers compensation inquiry system for:

- Rationale for and calculation of open claim reserves,
- Timeliness of claim reviews and documenting resolution plan,
- Subrogation pursued and amounts collected where applicable,
- Connecticut State Second Injury Fund reimbursements pursued and collected, and
- Final settlement opportunities pursued

**II. Detail Observations**

Various reviews of 66 (11.1%) of the total open claim reserves totaling \$8,370,735 (56.5%) as of April 30, 2011 disclosed that an amount due from the State of Connecticut Workers' Compensation Second Injury Fund totaling \$81,736 needed to be followed-up for collection. We recommended to Travelers claim management that follow-up for collection of these funds due the City should be taken promptly. Travelers claim management agreed to take follow-up action to collect these funds due the City. Human Resources management agreed to make sure that such recoveries are followed up promptly.

No other matters were noted that require management attention.

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Internal Audit Commission Members  
City Council Members  
P. Altieri, Chief Financial Officer, Hartford Public School System  
P. Campbell, Chief Auditor  
V. De La Paz, Deputy Chief Financial Officer, Hartford Public School System  
C. Johnson, Acting Director of Finance  
J. Kupiec, Chief of Staff, Mayor's Office  
J. Molleda, Acting Director, Management and Budget  
D. Panagore, Chief Operating Officer  
R. Pokorski, Benefits Administrator  
P. Segarra, Mayor

Audit Team

C. Trujillo